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SIPDIS

SENSITIVE

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SUBJECT: FOREIGN INVESTMENT & NATIONAL SECURITY CONFERENCE

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Refs: A) Paris 5441
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SUMMARY

1. (SBU) A parliamentary conference on foreign investment and national security on October 10 has helped to inject some market sense into Prime Minister Villepin's "economic patriotism" agenda, although it also highlighted shortcomings in the French approach to protecting firms from foreign investment. Separately, the PM named Bernard Carayon, the organizer of the conference, to lead a mission to implement reforms needed to protect national security. We met with Carayon to voice our concerns about protectionist trends, participated in his conference, and plan to assist him as he undertakes his new mission. END SUMMARY.

Conference Highlights

2. (SBU) Bernard Carayon (UMP) organized a conference October 10 at the National Assembly (the lower chamber of Congress) to discuss foreign investment and national security. Carayon is a leading protagonist of French economic intelligence, which forms a key part of the "economic patriotism" that Prime Minister Villepin has been pushing as part of his economic and security agenda. Carayon prepared a report in 2003 with a number of recommendations for the GOF.

3. (SBU) Before the conference, the Ambassador made a point to meet with Carayon to advocate the USG view of economic patriotism (e.g., a market-based approach), and the effort paid dividends at the conference. Although the conference examined US practices in depth, Carayon emphasized that economic patriotism does not translate into protectionism. In his opening remarks at the conference, he mentioned the recent failed Chinese bid for UNOCAL, as well as the ongoing Boeing-Airbus trade dispute, but said he hoped the lessons learned would be applied in the fight by countries that share the same values against the new threats to collective security, such as terrorism.

4. (U) French Minister of Defense Michele Alliot-Marie opened the conference in a speech assailing protectionism. She noted protectionism is counter-productive, and that in defense matters, future needs must be considered. She argued that France should control its spending, and select its strategic interests carefully. She argued against creating any new bureaucracy to screen foreign investments, and urged creating a European industrial strategy. She emphasized that France needs research and technology, which she was pursuing in defense. Econ M/C followed with an explanation of US investment policy and national security review mechanisms, stressing the U.S. system's openness and efficiency.

5. (U) The conference had three thematic panels, one on balancing interests, one on the US and French systems, and one on practical considerations.

6. (U) At the first panel, one member of the National Assembly, Axel Poniatowski (UMP), argued that the US is more protectionist than the EU, tax schemes such as the Foreign Sales Corporation (FSC) hinder liberal trade principles, and the dollar is undervalued, yet the EU is accused of being more protectionist. Clara Gaymard, head of the French Agency for Investment promotion (AFII), picked up this theme to argue that France needs to do a better job in communication. She said it has become hard to sell the image of France as a country that has implemented reforms when every investor asks about the Pepsi-Danone flap (where the PM spoke out against a possible acquisition). The Econ MC commented that in the US, Danone could have bought Pepsi. Jean-Louis Gergorin, VP of EADS, said EADS is guided by patriotism, since if it were guided by pure profit motives it would have moved labor out of France long ago. He noted

that export controls are a bigger problem than investment controls, since the State Department clearances take too long. He added Boeing would not have been able to launch its fleet without billions in Pentagon R&D funds, and said the GOF should promote European pension funds. A venture capitalist, Phillipe Pouletty, countered that the French economic model is protectionism in disguise, and France does not need to subsidize its firms any more, but should spend more on R&D and facilitate private investment in profitable firms.

17. (U) At the second panel, Gay Sills from the US Treasury spoke of the procedures of the Committee on Foreign Investment (CFIUS), founded on the principles of an open investment climate. Vincent Guitton, from the French Ministry of Economy and Finance, explained French legislation, and spoke in very general terms about the objectives of impending regulations modifying the French investment regime. (The draft decree reportedly will shield ten sectors France considers strategic: defense, biotechnology, space technology, telecommunications, casinos, encryption IT security and antidote production). Frederic Puaux, deputy of the director for economic intelligence in the Ministry of Defense (an office created in response to the Carayon report), stated French rules do not allow for mitigation, but do allow for appeal (whereas the US system allows for mitigation, but no appeal from a Presidential determination). The US system cannot be transposed to France because of EU rulings requiring precise definition of national security. No other state has a more precise definition than France. (NOTE: The positive portrayal of the US non-definition of "national security" reflected French congressional concerns that the GOF was going to make the French investment regime too restrictive, which in their view would be counterproductive. END NOTE.)

18. (U) The Ambassador closed the conference with a speech vigorously defending the open investment climate in the US, expounding on the virtues of an open investment policy, and warning against protectionist trends.

Man on a Mission

19. (SBU) On October 3, the PM named Carayon to head a legislative mission to not only explore implementing controls on foreign investment, but also to explore the creation of rules and the greater involvement of the private sector in international negotiations, particularly in Europe. We spoke with Carayon about this new mission, and offered assistance in arranging a possible visit to USG officials.

Comment

10. (SBU) We greatly appreciate the assistance from the Department and the participation of Treasury official Sills in this conference. The debate easily could have swung to bashing the USG (at least one major French firm, Thomson, had a bruising experience with CFIUS), but our active advocacy forestalled that result. Nevertheless, we were struck by the pessimism expressed across the board by how the French are protecting their national security. We accordingly will remain engaged, since protectionist sentiments in France continue to be stoked by sluggish economic growth and persistently high unemployment rates. STAPLETON